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ABSTRACT

The Retirement Equity Act (REA) sets out requirements for joint and survivor annuity coverage for married individuals who participate in federally regulated retirement plans. REA-mandated provisions do not apply to state and local government retirement systems. Because state and local government employees constitute a significant part of the work force, it is important to determine the extent to which their retirement plans provide survivor benefit protections. A survey was conducted of all state administered retirement systems (SARS), covering teachers, other school employees, or state and local government employees. Only Maine did not provide information. Data from 75 SARS were analyzed for joint and survivor benefits, spousal rights, types of beneficiaries, special circumstances affecting benefit receipt, special death benefits, and life insurance and health benefits. The results revealed that only six SARS adhered to the REA requirement that a joint and survivor benefit be provided automatically to the spouse, unless specifically waived; 17 SARS specified at least a 1-year marriage requirement for receipt of a joint and survivor option; 6 SARS required a minimum age as eligibility for receipt of a spousal benefit; 17 SARS withdrew the joint and survivor benefit if the surviving spouse remarried; and 8 SARS specified protections for divorced spouses. State retirement systems on the leading edge in providing and protecting broad survivor benefit packages should be emulated by other states. (NB)

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THE RETIREMENT EQUITY ACT, SURVIVOR BENEFITS PROTECTIONS, AND PUBLIC EMPLOYEE RETIREMENT SYSTEMS

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THE RETIREMENT EQUITY ACT, SURVIVOR BENEFITS PROTECTION AND PUBLIC EMPLOYEE RETIREMENT SYSTEMS

INTRODUCTION

The Retirement Equity Act (REA) was signed into law on August 23, 1984 (P.L. 98-397, 98 Stat. 1426). REA sets out requirements for joint and survivor annuity coverage for married individuals who participate in federally regulated retirement plans. The law makes such coverage automatic in certain circumstances and requires spousal consent for some actions affecting survivor annuity coverage. In enacting REA, Congress added protections for spouses of participants in qualified plans.

REA-mandated provisions, however, do not apply to the state and local government retirement systems which provide coverage for 12 million workers and 3.5 million beneficiaries. These retirement plans, unlike their private sector counterparts, are expressly exempted from federal government regulation via the Employee Retirement Income Security Act (ERISA). Because state and local government employees constitute a significant part of the work force, it is important to determine the extent to which their retirement plans provide survivor benefit protections. The purpose of this study, therefore, has been to make such a determination.

This paper is divided into three major sections: a brief description of REA provisions, the nature of the survey undertaken, and the findings of the study. It ends with a brief section on policy recommendations.

PROVISIONS OF THE RETIREMENT EQUITY ACT (REA)

The REA requires that a defined benefit plan and certain defined contribution plans subject to ERISA regulation automatically provide postretirement spouse's benefits in the form of a qualified joint and survivor annuity and preretirement spouse's benefits in the form of a qualified preretirement survivor annuity. A qualified joint and survivor annuity is paid to a vested participant who has an earned right to a pension when s/he retires or terminates employment under the plan. A qualified preretirement survivor annuity is paid to the surviving spouse of a vested participant who dies prior to the receipt of a pension.

The REA's automatic survivor benefit rule sets forth rules and restrictions governing the mandatory provision of a joint and survivor (J&S) benefit, whereby the survivor will receive 50% of the monthly pension benefit. These include the one-year marriage requirement; provision of an opportunity to waive the election of a J&S benefit via a valid, written spousal consent; provision of a written explanation of the terms and conditions of a J&S benefit, including the participant's and spouse's rights to waive such a benefit and

subsequently to revoke such a waiver; and lump sum distributions if the earned benefit does not exceed $3,500.

The REA's automatic survivor benefit rule also sets forth rules governing the provision of a preretirement survivor annuity. Many of these rules are similar to those affecting a J&S benefit including spousal consent in writing to effect a waiver; written explanations provided to participants; the one-year marriage requirement; and the provision of an immediate lump sum distribution rather than a monthly annuity if the value does not exceed $3,500.

Because ERISA's preemption of state requlation of pension benefits led to litigation over divorce settlements, REA permits state court judgments as to marital property rights to constitute an exception of this preemption. REA also includes provisions for breaks in service and maternity and paternity absences. The law became effective for plan years beginning on or after January 1, 1985. Plans subject to a collective bargaining agreement are, however, not governed by REA until a new agreement is negotiated or July 1, 1988.

In the past, numerous studies have been undertaken by the House Pension Task Force, the Urban Institute, the author of this paper and others to determine the extent to which state and local retirement plans would measure up with regard to ERISA reporting and disclosure provisions. Thus, there is ample precedent for comparing the

provisions of these plans with federal regulations, even though they are not legally subject to such regulation.

Retirement systems administered by state governments account for 87.2 percent of the membership of all subnational plans. About 95 percent of all persons participating in retirement systems of state and local governments belong to the 171 largest systems with a membership of 5,000 or more. State administered retirement systems that cover teachers or teachers and other public school employees (STRS) or systems that cover all state employees (SERS) or state and local government employees (PERS) encompass the majority of large membership systems. Thus, surveys of the extent to which they adhere to federal standards for pension plans provide an excellent gauge of how well public employees receive necessary protections such as those required by REA. To conduct this study, therefore, it was deemed appropriate to survey the universe of the State PERS, SERS and STRS.

NATURE OF THE STUDY

A survey was conducted of all state administered retirement systems (SARS). These are multi-employer plans covering state and local government employees, teachers only, teachers plus other school employees, or a combination of employee groups. Only Maine (one system) failed to provide any information. Data sources included summary plan descriptions and/or where applicable, special brochures describing survivor benefits; health plan booklets; a questionnaire

concerning communications practices of all SARS covering teachers; annual member account statements; and in a few instances, information provided by the SARS during the initial telephone contact.

The materials of the 75 SARS responding were analyzed for specific categories of information: Joint and survivor benefits, spousal rights, types of beneficiaries, special circumstances affecting benefit receipt, special death benefits, and life insurance and health benefits. In addition, attention was paid to how and where this information is communicated. Information about breaks in service and various categories of leaves in STRS has already been reported on by the author (Liebig, 1987) and was not part of this survey.

As would be expected in any content analysis undertaking, the information provided often had to be "interpreted" to fit the categories being addressed. In a number of instances the inforamtion sought could not be found in the materials provided. No attempt, however, was made to fill in these gaps by turning to other sources, including the author's two earlier surveys of public employees' retirement systems (1983) or state teachers' retirement systems (1987). The basis rationale for this approach was to use the same written information a plan participant would -- a "test" of the extent to which the entire survivor benefit package is explained in, and can be comprehended easily by using, plan documents.

FINDINGS

The 75 state administered retirement systems (SARS) offer a broad package of benefits. The most important parts of the package are the protections provided to spouses and otehr survivors/beneficiaries in the event of the death of the plan participant, whether in active or retired status. In some cases, the survivors of members in inactive status (i.e., their contributions are still held by the SAR) also are eligible recipients. Besides the familiar joint and survivor benefits options available to spouses of deceased retirees, other benefits include preretirement death benefits for spouses and other beneficiaries of active members and special postretirement death benefits. These may be augmented by welfare benefits: life insurance and health benefits.

Joint and Survivor Benefits

Joint and survivor (J&S) benefit options are offered by all SARS; most usually for spouses (female or male) of deceased retirees; however, other beneficiaries may also be eligible. Characteristically, an option may be selected at the time of retirement. As would be required under REA, only six SARS require this option for married plan participants, unless specifically waived by the spouse: both Alaska systems, Idaho, Utah, Wisconsin and the Oklahoma SERS. One other system (Michigan Public

Schools) requires that the spouse also sign the election at the time of retirement. Two systems (one in Kentucky and one in Ohio) require that the spouse be the first beneficiary, but don't specifically require the selection of a J&S option. The Kentucky PERS recommends that the spouse be the primary beneficiary because of the way death benefits are structured, while the California PERS recommends discussion of the options with the beneficiary; both of these are weak protections.

In addition, other SARS provide special spousal rights, such as an automatic benefit if the plan member is eligible for retirement or has more than 25 years of service or if the member has at least 10 years (Alabama Teachers and Kentucky Teachers). In Florida, only the spouse or a financial dependent may be a beneficiary if the member has less than 10 years of service. Despite these spousal protections in a few systems, it is clear that the majority of the SARS need to provide stronger guarantees for spouses.

In addition to the lack of an REA-type automatic protection, receipt of benefits by a surviving spouse may be restricted according to three factors: length of marriage, spousal age or forfeiture upon remarriage. A total of eighteen SARS specify a marriage requirement with thirteen requiring at least one year; in two, this requirement is waived if death is accidental or if there is a new or unborn child. Three SARS require 2 years, unless certain circumstances exist, and one requires 3 years. The last of the eighteen requires that the

spouse be living with and dependent upon the deceased member for financial support.

Spousal age may also be a barrier to receipt of benefits in six SARS unless there are mitigating circumstances such as spousal disability, presence of dependent children, or specific cause of death. Age 50 or 60 is usually the requirement for eligibility. In addition, two systems place restrictions at age 65 for the receipt of a special retiree death benefit. These restrictions can work to the detriment of the surviving spouse.

Remarriage of the surviving spouse may also result in the loss of J&S benefits in seventeen SARS. In several instances, this benefit loss only occurs if the cause of death of the plan participant was job related. Other triggering circumstances include the age of the surviving spouse at remarriage and years of service earned by the retiree. In two SARS, if the remarriage lasts less than two years, the forfeiture is not permanent. This policy negates the concept of a pension as a jointly earned economic asset.

Changes in beneficiaries due to divorce or other circumstances are specified by several SARS. Nearly all SARS permit a change in beneficiary <u>prior</u> to retirement, except for those mandating spousal coverage (already described above) or those requiring a QDRO (Qualified Domestic Relations Order) to protect the benefit rights of divorced spouses. Four SARS (both Alaska systems, Montana Teachers

and Nebraska SERS) require a court order. Seven, however, simply indicate that divorce (or death) of a spouse or marriage of a beneficiary may be an indication of the need to change beneficiaries. In two systems (Connecticut and Colorado), if a divorce occurs, the full benefit level is re-established for the plan participant, as if the spouse had died. Four systems (Mississippi, Utah, and Oklahoma and Pennsylvania SERS) do not permit a change in the surviving spouse if divorce occurs after retirement. All other SARS make no mention of protections for divorced spouses. Thus, it would appear that, with the exception of the eight systems that require court orders or do not permit postretirement changes if divorce occurs, there are grounds for major improvements in specifying rights to pension benefits if marriage dissolution occurs.

In recent years, all SARS have become more flexible in the area of survivor benefits, specifically in the numbers and types of survivor options available and in the choices of beneficiary. Until fairly recently, the number and type of retirement options were limited in scope, usually three or four, including a 50% benefit for the surviving spouse or a guaranteed period of years over which the pension would be paid, usually 10 years. If the beneficiary predeceased the retiree, generally no readjustment was made. One option also include a full benefit to be paid to the married retiree with no provision for a spousal benefit when death of the retiree occurred. While this undesirable situation can still occur (without

REA-type protections), there have been major changes in the options available and greater attention is now paid to explaining them.

While a few SARS (Delaware, South Dakota and Alabama Teachers) still allow only one option, the more usual number is five or six choices. A few systems (Kentucky, Ohio and Nebraska SERS and New York Teachers) offer as many as nine, plus some special options. Benefits paid to survivors are likely to be 50% or 100% of the benefit elected at retirement, but 25%, 66-2/3% and 75% options are also available. Many of these (31) include a "pop-up" provision: if the spouse beneficiary predeceases the retiree, the benefit is "popped up" or elevated to an unreduced level and paid at that higher level for the lifetime of the retiree. Thus the retired member's benefit is not penalized by the untimely death of the spouse.

Greater flexibility to meet changed earning circumstances, largely occasioned by two earner families, is also demonstrated by a growing trend toward tailor-made survivor benefits. These can take the form of a particular amount per month, special options such as 95% with or without pop-ups, or designing benefits to take into account the retirement plans of both earners. Modified maximum benefits that provide an initial large benefit for both spouses, with a lump sum or other modification for the surviving spouse are also offered by 15 SARS. Fortunately, the majority of SARS provide examples and sample calculations to clarify what the benefit levels may be; only eighteen do not.

The other major area of flexibility is in the designation of different beneficiaries. Until recently, the spouse was the characteristic choice for married participants. For unmarried plan members, straight life was often the only option. New choices of beneficiaries allow for others to be named, not just those dependent on the retiree for financial support. Even in those systems requiring spousal designation for married participants, that right may be waived in favor of other beneficiaries. Twenty SARS permit children, dependent/minor or otherwise, to be named as primary beneficiary, while sixteen allow parents to be designated. Nine systems allow the election of the member's estate, six permit any designation, and three each allow siblings to be beneficiaries. Some SARS are more restrictive: 3 permit only those persons having an insurable interest, 2 allow spouses only and no other designees, and 2 others permit only a specific succession of beneficiary interest. Less resrictive choices include any relative or friend, grandchild or a trust. Except for those seven SARS requiring spousal consent (with or without written waiver), the spouse has no specified right to participate in the designation of beneficiary.

Slightly under half of the SARS allow changes in beneficiary with ease. Six SARS impose no restrictions at any time. The majority allow postretirement changes for specified circumstances such as certain J&S options only, divorce or marriage of a beneficiary, or death of spouse with a pop-up benefit for the retiree. A decade ago this flexibility would have been rare indeed and while it doesn't

guarantee that spouses or divorced spouses will always receive protection against all others' claims, it does permit greater responsiveness to the changing circumstances of today's families. Flexibility plus protection could still be achieved if a signed waiver by a spouse were required.

A final protection for spouses is specified for J&S benefits. Nine SARS indicate that survivor benefits are eligible for cost of living adjustments (COLAs). In the absence of specificity in plan documents, it is not known whether the more than sixty other SARS provide the same protection of purchasing power.

Special Death Benefits

Many SARS provide two categories of death benefits: preretirement death benefits for spouses and/or children of active plan members, and special postretirement death benefits in addition to any J&S option that may have been selected. These benefits automatically are part of the protections provided by the retirement income package, similar to those provided by Social Security. They may be supplemented by optional life insurance.

With the exception of the seven SARS about which information could not be found, all other systems (68) provide for monthly benefits for survivors having a stated family relationship to the employee upon the occasion of the member's death prior to eligibility

for early or normal retirement. A number of contingencies obtain: usually years of service, (characteristically 5 years) or vesting, and less frequently, the age of the member, whether the cause of death was occupationally related, or the duration of marriage.

Half (34) of the SARS provide a lump sum return of member contributions and interest for both vested and nonvested members. Some also include an employer-provided match, plus a specified amount ranging from $500 to $2,000 or $2,500, and in a few instances, maximums of $18,000 to $20,000. Nineteen SARS permit the survivor to choose between a lump sum, a 50% J&S option or a specified monthly amount, while half provide a specific percentage of the member's final salary for one, two, three or more survivors, with some including dependent children or parents, up to a maximum of 100%.

Nearly twelve percent of the SARS also provide a special cash benefit for survivors of a deceased retiree in addition to whatever survivor option may have been chosen. Some of these are relatively small amounts and range from $400 to $2,500. They are generally regarded as funeral benefits or as benefits to tide the survivor over prior to the commencement of a monthly survivor benefit.

The SARS provide these death benefits in addition to Social Security benefits paid to the families of nonretired deceased workers; with the exception of the Illinois SERS, no integration of SARS and Social Security benefits is required. While there are fewer than 15

SARS that have not automatically provided Social Security benefits to all their employees (generally teachers' systems), by law they are now required to provide such coverage to their new hires. Thus, the total death benefit package for most employees covered by the SARS provides indepth coverage.

Life Insurance and Health Benefits

Although not required and not falling under the rubric of REA, benefits other than pensions ensure greater economic security for employees covered by the SARS. A final group of benefits provided by the SARS are two types of welfare benefits. Life insurance is an option provided by 31 systems. This benefit is in addition to the death benefits provided as part of the pension-retirement income package which, as noted above, also characteristically includes Social Security protections. In those states that have two separate systems, one for teachers and one for state employees, the latter are more likely to include this option as part of their benefit package. Because teachers' systems are also more likely to have had a history of non-Social Security, this lack of a life insurance option means that there is, for example, less protection for the families of California teachers compared with those of their nonteaching colleagues covered by the California PERS.

Retiree health benefits -- a significant part of economic security in retirement -- are provided by many, but not all, SARS.

Sixty-five systems provided information via their plan documents. Seventeen SARS provide no postretirement health coverage under their direct auspices. Of that number, retirees and spouses eligible for retirement income benefits provided by nine SARS receive health benefit coverage from individual employers. Eight SARS have no plan but two (Minnesota PERS and Pennsylvania Public Schools systems) are currently developing a SARS-provided benefits.

In addition, there are two SARS that provide access to health care on a limited basis. Rhode Island contributes funds for individual purchase rather than maintaining its own plan or plans, while the Nebraska SERS specifies COBRA continuation coverage only, which is time limited and paid for by the retiree. All SARS providing health benefits are, howver, subject to COBRA continuation rules.

Forty-six SARS of the 65 systems providing information indicated that they currently provide health coverage for retirees directly through the retirement system. With the addition of the nine SARS relying on the provision of coverage through individual employers participating in the system, retirees of 55 SARS currently have health benefits. Only forty-four SARS provided specific information that spouses and dependents are covered as well. Under COBRA continuation provisions, however, spouses would be eligible for coverage on a time limited basis at the retiree's expense.

In addition to the access provided to a group plan, the issue of who pays for that access is also important. Unlike most large private sector employer-provided plans, most SARS require that the retiree pay all or part of the costs of participating in a group health plan. Only five SARS pay fully (both Alaska systems, New Hampshire and both New Jersey systems), while 23 require the retiree to pay all. Ten SARS require sharing the cost, while Rhode Island, as noted above, contributes money towards purchase of coverage. Some of these SARS require retirees to pay for dependent coverage only, while two base the amount of SAR payment on years of service. For two SARS it was unclear as to who pays.

Information about coverage for the surviving spouse after the death of the retiree was not always clearly stated or not provided. Because all SARS fall under the rubric of COBRA continuation, spousal coverage would be provided for three years. For younger spouses not yet eligible for Medicare coverage, this time period may not be sufficent. Therefore, the availability of SARS coverage is an especially important aspect of economic security for surviving spouses.

Six SARS specified that continued coverage is limited or else contingent, while 28 indicated unequivocally that such coverage is provided. Vermont Teachers' specified that coverage is not provided. For the remaining SARS, either no coverage is provided at all or not directly by the SARS, or no information was provided. Because COBRA

is now taking effect it would be expected that the information provided by the SARS will soon include that provision specifically. In addition, to ensure that all SARS retirees and their spouses understand their postretirement health benefit coverage fully, the provision of Medicare coverage via SARS-covered employment (or its absence) also needs to be specified. This is consistent with good employee benefit communications practices.

Communications Practices

All SARS carry out intensive communications programs to ensure that plan participants understand the benefits provided and the circumstances affecting the receipt of those benefits. Most SARS provide information about survivor benefit options in the major plan document, the Summary Plan Description (SPD). Augmenting the SPD, fourteen SARS provide this information via a special brochure. This separate description allows for greater focus on the specific issue of survivor protections and enhances the likelihood that spouses and plan participants can more fully understand the range of benefits and protections provided by their plan. This opportunity for a separate focus on particular aspects of a plan is recommended by employee benefits communication specialists.

Another plan document which can serve to highlight the importance and extent of survivor benefits is the annual member's account statement. If the statements include nonbinding projections of

anticipated J&S options, death benefits, etc., they can serve as important financial planning tools for plan members and their spouses. (They also can serve as a reminder to the employee that the employer is providing an extensive benefit package at a specific costs.)

Sixty-seven plans sent examples of the annual statements sent to plan members. Most SARS do not use the statements to their full capacity. Eleven SARS project the J&S benefit that would be paid, based on the option currently selected; ten provide information about preretirement death benefits, and two about the special postretirement death benefit. Twenty-four report the names of beneficiaries and one provides a reminder to update the designated beneficiary. Twenty-two SARS do not include <u>any</u> kind of mention of survivor benefits on the statement.

While this information is not required of private plans by ERISA, or by REA, an updated, annual visual review of survivor benefits would serve as a potent preretirement planning tool. It can also provide information to participating employers so they fully understand the benefits they are purchasing via the retirement system. With the necessary computerization of SARS records and the existence of software packages to make projections, the expense of a more complete statement has been reduced in recent years. The minimal additional cost is fully justified by the benefits of improved communication to participating employers and employees, as well as beneficiaries.

POLICY RECOMMENDATIONS

Although state-administered systems (SARS) are not federally regulated by ERISA, over the last decade they have demonstrated their increased ability to meet those requirements, should federal legislation be enacted at some future date. As demonstrated by this study of the extent to which they now meet the standards set by REA, there is room for improvement to strengthen survivor benefit protections. The REA rules requiring a mandatory J&S option for married plan participants, unless a specific waiver is signed, is a reasonable standard and recognizes the contemporary standard that retirement income benefits are an important joint asset. All SARS should follow the lead of the handful of SARS now acting in accordance with the REA mandate.

Attention also needs to be paid to provisions restricting the receipt of survivor benefits. Any marriage requirement of more than one year should be reduced, and mitigating circumstances that bypass the one year rule should be encouraged. The one SAR requiring a spouse to reside with and be dependent on the plan member should eliminate that mandate as it is based on outmoded notions of family economics. Age of spouse requirments, while not age discriminatory *per se,* may work unnecessary hardships for younger spouses with and without children, and should also be eliminated.

As noted in the survey many SARS do not specify the effects of divorce or remarriage on the receipt of benefits. The effects of qualified domestic relations orders should be stated by the SPD so that there is no question about the righs of divorced spouses. If remarriage of the surviving spouse does not restrict the receipt of benefits, that provision should be clearly stated.

Similarly, SARS should continue to strengthen the pattern of improved communications. The 18 SARS that do not provide sample calculations for the basic kinds of J&S options should take immediate steps to correct this omission. This is in keeping with REA requirements for written explanations of survivor benefits.

REA, however, does not require or permit certain patterns of desirable benefit flexibility and communications utilized by the SARS. In these areas, the SARS should continue their current activities rather than adhere to REA's more restrictive provisions. The choice of several specific J&S options, tailor-made options and the ability to designate more than one beneficiary or alternative beneficiaries (if subject to the spousal waiver provision) permit the plan member to provide for retirement that best meets his or her individual and/or family circumstances. REA requirements of a 50% J&S for a married individual or a straight monthly annuity without modification, for an unmarried individual are too rigid.

In addition, SARS should follow the examples of the leading systems that provide separate brochures on survivor benefits and use the annual member's account statement to provide information and projections about survivor benefits. For those SARS for which a separate brochure might constitute too large an expense, reprints of relevant pages from the SPD or a basic fact sheet with references to the relevant pages in the SPD would provide the necessary information. In particular, the use of a more comprehensive account statement provides important information that projects the effects of the member's selected option on retirement income for that individual, and where applicable, his or her spouse. By having an annual update, that may also include information about SARS death benefits, Social Security benefits and other benefits, both member and spouse have a better grasp of their entire retirement security package.

In conclusion, while some of the REA provisions should be adhered to by the SARS, others that are overly restrictive should be avoided. While it is unlikely that federal regulation of SARS and local retirement systems will be enacted in the near future, those SRS (such as Alaska) that are on the leading edge in providing and protecting a broad survivor benefit package should be emulated.

HIGHLIGHTS

THE RETIREMENT EQUITY ACT, SURVIVOR BENEFITS PROTECTIONS, AND PUBLIC EMPLOYEE RETIREMENT SYSTEMS

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THE RETIREMENT EQUITY ACT,
SURVIVOR BENEFITS PROTECTIONS
AND PUBLIC EMPLOYEE RETIREMENT SYSTEMS

The Surveys:

- Survey of plan documents provided by 75 state administered retirement systems (SARS), covering teachers (STRS), state employees (SERS), or state and local government employees (PERS)

- Only one state did not provide information (Maine)

The Findings:

- Only six (6) SARS adhere to the REA requirement that a joint and survivor (J&S) benefit be provided automatically to the spouse, unless specifically waived. In addition, one (1) SARS requires that the spouse sign the election of the pension option at the time of retirement

- Thirteen (13) SARS specify a one-year marriage requirement for receipt of a J&S option, while four (4) require longer periods (2 or 3 years). The rest specify no duration of marriage requirement

- Six (6) SARS specify a minimum attained age as eligibility for receipt of a spousal benefit unless there are mitigating circumstances

- Seventeen (17) SARS withdraw the J&S benefit if the surviving spouse remarries, subject to certain triggering circumstances

- Eight (8) SARS specify protections for divorced spouses

- Three (3) SARS offer only a 50 percent J&S option; all others offer a wide range of benefit payments to surviving spouses, many of which can be tailor made and are highly flexible. Pay out options for unmarried plan participants are also flexible

- All but eighteen (18) SARS provide sample calculations of the several benefit payment options enabling the participant to understand their effects on the level of monthly benefits

- Great flexibility is permitted in the choice of beneficiary other than the spouse to be designated beneficiaries; for most (68) SARS, the spouse is not specified as part of that decision making process. The timing of changes in beneficiary designation in 37 SARS is very flexible

- Nine (9) SARS specify that survivor benefits are eligible for COLAs, thereby protecting the purchasing power of the benefit

- Except for seven SARS, all others (68) provide for monthly benefits to be paid to surviving spouses prior to the plan member's eligibility for retirement. Many include monthly allowances for dependent children as well. In nineteen (19) SARS, surviving spouses have a choice of options

- A few (12%) of the SARS provide a special lump sum post-retirement death benefit, in addition to any J&S annuity that may have been chosen

- Optional life insurance is provided by 31 SARS, in addition to the SARS-provided death benefits and Social Security survivor benefits

- Of the 65 SARS providing information about retiree health benefits, seventeen (17) do not provide such benefits directly; however two (2) are developing a plan and retirees of nine (9) SARS can obtain coverage from their individual employer

- Similar to most retiree health benefits provided by and paid for by private sector employers, only five (5) SARS pay fully for the cost of retiree health benefits premiums. All others require the retiree to pay all or part of those costs

- Only 29 SARS provided specific information about retiree health benefit protection for surviving spouses; 28 provide coverage, one (Vermont) does not. The SARS, however, are subject to COBRA continuation rules which permit time limited coverage (3 years) for surviving spouses at their own expense

- Twenty-two (22) SARS do not use the annual member statement for any, even minimal, communication about survivor benefits.

<u>Policy Recommendations:</u>

- All SARS should adhere to the REA requirement mandating a J&S option for married plan participants, unless specifically waived in writing by both participants and spouse

- The few SARS requiring a marriage requirement of more than one year should reduce that standard; all SARS should specify any marriage requirement

- All SARS should specify standards for any modifications in benefit receipt due to divorce, remarriage

- The 18 laggard SARS should provide examples of calculations for different J&S options

- The SARS should retain their flexible patterns of J&S options and alternative beneficiaries rather than adhere to the more rigid REA standards

- All SARS should take steps to ensure more complete explanations of benefits by providing separate survivor benefit brochures and more informative annual member account statements